



Pre-Existing Condition Insurance Plan

An Enterprise Fund of the State of Utah

Financial Report

For the Year Ended December 31, 2013

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Table of Contents

	Page
Independent State Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position.....	9
Statement of Cash Flows	10
Notes to the Financial Statements.....	11
Independent State Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	15



OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Directors, Audit Committee
and
Tomi Ossana, Executive Director
Utah Comprehensive Health Insurance Pool

Report on the Financial Statements

We have audited the accompanying financial statements of Federal-HIPUtah, a Pre-Existing Condition Insurance Plan, which is an enterprise fund of the State of Utah, as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal-HIPUtah as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Discontinuation of Operations

As discussed in Note 1, the Federal-HIPUtah program ended coverage as of June 30, 2013 at which time the program entered the contract close-out period. The close-out period runs from July 1, 2013 through December 31, 2014, during which time Federal-HIPUtah will continue to pay for benefit claims that were incurred by June 30, 2013 and received by June 30, 2014.

Reporting Entity

As discussed in Note 1, the financial statements present only the Federal-HIPUtah enterprise fund and do not purport to, and do not, present fairly the financial position of the State of Utah, as of December 31, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to the above matters.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014 on our consideration of Federal-HIPUtah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Federal-HIPUtah's internal control over financial reporting and compliance.

Office of the Utah State Auditor

May 1, 2014

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Management's Discussion and Analysis For the Year Ended December 31, 2013

The following is a discussion and analysis of Federal-HIPUtah's financial performance for the year ended December 31, 2013. It is intended to serve as an introduction to Federal-HIPUtah's financial statements.

Highlights

Enrollment in all state administered Pre-existing Condition Insurance Plans (PCIPs), including Federal-HIPUtah, was suspended by the U.S. Department of Health and Human Services (HHS) in March 2013 due to concerns about the high cost of benefit claims for these programs. HHS also proposed contractual changes, which would have placed the liability for any remaining benefit claims incurred after June 30, 2013, on the states that continued to operate their respective PCIP plans. The State of Utah could not accept any liability associated with the operation of Federal-HIPUtah, so Federal-HIPUtah terminated all enrollment in the program as of June 30, 2013. These enrollees were given the opportunity to enroll, with reduced benefits, in the federally administered PCIP as of July 1, 2013.

The statements presented in this report reflect the revenues and expenses for the active operation of the Federal-HIPUtah program from January 1, 2013 through June 30, 2013 and the payment of benefit claims incurred as of June 30, 2013 and administrative expenses from July 1, 2013 through December 31, 2013. These statements show total operating expenses during the year exceeded operating revenues resulting in a \$13,980,552 operating loss. The \$13,980,552 operating loss was covered by federal revenues so the net position of Federal-HIPUtah remained zero as of December 31, 2013.

Overview of the Financial Statements

Federal-HIPUtah's financial statements are comprised of four components: 1) the Statement of Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements.

The Statement of Net Position provides information on Federal-HIPUtah's assets and liabilities as of the end of the calendar year, with the difference reported as net position. The information provided in the Statement of Net Position along with the information contained in the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Financial Statements can help assess Federal-HIPUtah's liquidity and its ability to meet its obligations.

The Statement of Revenues, Expenses, and Changes in Net Position provide information about operating results and non-operating transactions and their effect on the net position of Federal-HIPUtah. The information in this statement, together with the information in the Statement of Net Position, the Statement of Cash Flows, and the accompanying notes can assist in evaluating

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Management's Discussion and Analysis For the Year Ended December 31, 2013

Federal-HIPUtah's performance during the period.

The Statement of Cash Flows presents information about the cash receipts and cash payments of Federal-HIPUtah during the period. When used with the related information in the other financial statements, a statement of cash flows can help assess Federal-HIPUtah's ability to meet its obligations as they come due and the reasons for the differences between operating losses and the associated cash receipts and payments.

The Notes to the Financial Statements include additional information that is essential to a complete understanding of the data provided in the financial statements.

Financial Analysis

The schedule on the next page summarizes Federal-HIPUtah's financial statements for the years ended December 31, 2012 and December 31, 2013. The changes in assets, liabilities, revenues, and expenses are also presented for these two years.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Management's Discussion and Analysis For the Year Ended December 31, 2013

Changes in Assets, Liabilities, and Net Position For the Years Ended December 31, 2012 and December 31, 2013				
	2012	2013	Change Amount	Percent Change
Cash	\$ 377,854	\$ 80,520	\$ (297,334)	-79%
Premium and Other Receivables	170,545	2,515	(168,030)	-99%
Federal Contract Receivable	5,719,395	278,833	(5,440,562)	-95%
Prepaid Expense	10,184	10,184	-	0%
Total Assets	6,277,978	372,052	(5,905,926)	-94%
Accounts Payable	42,726	5,958	(36,768)	-86%
Unearned Premiums	100,622	8,529	(92,093)	-92%
Benefit Claims Liability	6,134,630	357,565	(5,777,065)	-94%
Total Liabilities	6,277,978	372,052	(5,905,926)	-94%
Net Position	\$ -	\$ -	\$ -	0%
Operating Revenue - Premiums	\$ 4,698,804	\$ 2,470,744	\$ (2,228,060)	-47%
Operating Expenses:				
Program Administrator Fees	335,827	169,182	(166,645)	-50%
Medical and Pharmacy Benefit Claims	34,901,050	21,866,869	(13,034,181)	-37%
Change in Actuarial Estimate of Benefit Claims Liability	3,287,057	(5,777,065)	(9,064,122)	-276%
Other Professional and Technical Services	215,927	192,310	(23,617)	-11%
Total Operating Expenses	38,739,861	16,451,296	(22,288,565)	-58%
Operating Loss	(34,041,057)	(13,980,552)	20,060,505	-59%
Non-Operating Revenue - Federal Contract	34,041,057	13,980,552	(20,060,505)	-59%
Change in Net Position	\$ -	\$ -	\$ -	0%

The above schedule shows there were large decreases in Federal-HIPUtah assets, liabilities, revenues, and expenses during the year ended December 31, 2013. The federal contract receivable of \$278,833 as of December 31, 2013, decreased \$5,440,562 or 95 percent from the prior year. This receivable is for revenue earned for allowable administrative and estimated benefits claims expenses incurred, but not paid by Federal-HIPUtah as of December 31, 2013. The benefit claims liability of \$357,565 as of December 31, 2013, decreased \$5,777,065 or 94 percent from the prior year. This liability is an actuarial estimate of the ultimate cost of benefit claims that have been incurred but not reported as of December 31, 2013.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Management's Discussion and Analysis For the Year Ended December 31, 2013

Total operating expenses for the year ended December 31, 2013, were \$16,451,296, which is a decrease of \$22,288,565 or 58 percent from the prior year. Total operating expenses for the 2013 year included \$21,866,869 in paid medical and pharmacy benefit claims, which decreased \$13,034,181 or 37 percent from the prior year. Total operating expenses also included the \$5,777,065 decrease in the actuarially estimated ultimate cost of benefit claims that were incurred, but not paid as of December 31, 2013. This is a decrease of \$9,064,122 or 276 percent from the prior year.

The large decreases in assets, liabilities, revenues, and expenses during the year ended December 31, 2013, were primarily due to decreased enrollment and benefit utilization. Enrollment in all federally administered PCIPs was suspended on February 15, 2013, and enrollment in all state administered PCIPs, including Federal-HIPUtah, was suspended in March 2013 by HHS. HHS suspended enrollment because they were concerned about the high cost of benefit claims for the PCIPs. HHS also proposed contractual changes in May 2013, which would have placed the liability for any remaining claims incurred after June 30, 2013, on the states that continued to operate their respective PCIP plans. The State of Utah could not accept any liability associated with the operation of Federal-HIPUtah. The State of Utah presented an alternative proposal to HHS where the remaining liability could be assumed by Federal-HIPUtah's administrator. HHS declined this proposal so all enrollees were terminated from the Federal-HIPUtah program as of June 30, 2013. These enrollees were given the opportunity to enroll, with reduced benefits, in the federally administered PCIP as of July 1, 2013. As a result, Federal-HIPUtah had no enrollees from July 1, 2013 through December 31, 2013. This is a decrease of 1,267 enrollees from as of December 31, 2012.

The total operating loss from Federal-HIPUtah's third full year of operations between January 1 and December 31, 2013, was \$13,980,552, which is a decrease of \$20,060,505 or 59 percent from the prior year. This decrease in the operating loss from the prior year is mostly due to decreased enrollment and benefit utilization as explained above. Federal-HIPUtah's operating losses are because the benefit claims expenses for enrollees eligible for this program exceeded the federally regulated premiums charged. Enrollees that accessed coverage through this program did not have health insurance for at least the last six months before their effective date. These enrollees had major health conditions that were not treated and therefore there was a pent up demand for high-cost medical services for the first several months on the program. HHS had agreed in their contract with the State of Utah to pay the claims for covered services for these enrollees plus allowable administrative costs incurred for administering the Federal-HIPUtah program that were in excess of the federally regulated premiums collected. Therefore, the \$13,980,552 operating loss was covered by non-operating federal revenues and Federal-HIPUtah's net position remained at zero as of December 31, 2013.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Management's Discussion and Analysis For the Year Ended December 31, 2013

Financial Outlook

Federal-HIPUtah will pay for benefit claims incurred by June 30, 2013 that have been received by June 30, 2014. HHS will continue to provide reimbursement for these benefit claims as well as for any administrative costs associated with these claims and the closing down of the Federal-HIPUtah program.

Contacting Federal-HIPUtah's Management

This financial report is designed to provide the citizens of Utah and the United States with a general overview of Federal-HIPUtah's finances and to demonstrate Federal-HIPUtah's financial accountability over its resources.

If you have questions about this report or need additional information, contact Tomi Ossana, HIPUtah Executive Director, by email at tjossana@xmission.com.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Statement of Net Position As of December 31, 2013	
Assets	
Current Assets:	
Cash	\$ 80,520
Premiums Receivable	2,515
Federal Contract Receivable	278,833
Prepaid Expense	10,184
Total Assets	372,052
Liabilities	
Current Liabilities:	
Accounts Payable	5,958
Unearned Premiums	8,529
Benefit Claims Liability	357,565
Total Liabilities	372,052
Net Position	\$ -

The accompanying notes are an integral part of the financial statements.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended December 31, 2013	
Operating Revenues:	
Premiums	\$ 2,470,744
Total Operating Revenue	2,470,744
Operating Expenses:	
Program Administrator Fees	169,182
Medical and Pharmacy Benefit Claims	21,866,869
Change in Actuarial Estimate of Benefit Claims Liability	(5,777,065)
Other Professional and Technical Services	192,310
Total Operating Expenses	16,451,296
Operating Loss	(13,980,552)
Non-Operating Revenues	
Federal Contract	13,980,552
Total Non-Operating Revenue	13,980,552
Change in Net Position	-
Net Position - Beginning	-
Net Position - Ending	\$ -

The accompanying notes are an integral part of the financial statements.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Statement of Cash Flows For the Year Ended December 31, 2013	
Cash Flows from Operating Activities:	
Receipts from Premiums	\$ 2,545,063
Payments for Medical and Pharmacy Benefit Claims	(21,865,251)
Payments for Program Administrator Fees	(201,355)
Payments for Other Professional and Technical Services	(196,905)
Net Cash Used by Operating Activities	(19,718,448)
Cash Flows from Non-Capital Financing Activities:	
Receipts from Federal Contract	19,421,114
Net Cash Provided by Non-Capital Financing Activities	19,421,114
Net Decrease in Cash	(297,334)
Beginning Cash	377,854
Ending Cash	\$ 80,520
Reconciliation of Total Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (13,980,552)
Adjustments to Reconcile Total Operating Loss to Net Cash Used by Operating Activities:	
Net Changes in Assets and Liabilities:	
Premium and Other Receivables	168,030
Unearned Premiums	(92,093)
Accounts Payable	(36,768)
Benefit Claims Liability	(5,777,065)
Net Cash Used by Operating Activities	\$ (19,718,448)

The accompanying notes are an integral part of the financial statements.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Notes to the Financial Statements For the Year Ended December 31, 2013

1. Organization and Nature of Business

The Pre-existing Condition Insurance Plan (PCIP) was enacted by Section 1101(b) of the Patient Protection and Affordable Care Act, Public Law 111-148, (the Affordable Care Act). The PCIP program was established on September 1, 2010, by a contract between the U.S. Department of Health and Human Services (HHS) and the State of Utah Insurance Department and is known as Federal-HIPUtah. The Federal-HIPUtah program provides health insurance coverage to enrollees who are uninsured residents of the State of Utah with pre-existing conditions who have been without insurance for at least six months. This program assumes the risk for health benefit claims made by these enrollees and manages this risk by placing ceilings on enrollment when necessary, placing limitations on yearly and lifetime benefits, and through various other claim management methods. Federal-HIPUtah enrollees pay federally regulated premium amounts and the balance of the costs of providing services is covered by contract funding from HHS.

The Federal-HIPUtah program suspended enrollment in March 2013 and ended coverage as of June 30, 2013 and began a contract close-out period. The contract close-out period will run from July 1, 2013 through December 31, 2014. During this time benefit claims that were incurred by June 30, 2013 and received by June 30, 2014 will be paid. When Federal-HIPUtah ended coverage on June 30, 2013, enrollees were given the opportunity to enroll in the federally administered PCIP as of July 1, 2013. Although HHS has extended coverage under the PCIP program through April 30, 2014, most former enrollees have since transitioned into qualified health plans offered through the health benefit exchanges that became available on January 1, 2014.

The Utah Comprehensive Health Insurance Pool (HIPUtah) administers the Federal-HIPUtah program for the State of Utah Insurance Department. HIPUtah is a non-profit quasi-governmental entity administered by the State of Utah Insurance Department that provides access to health insurance coverage to Utah residents who are considered uninsurable. HIPUtah runs Federal-HIPUtah as a separate program. HIPUtah is governed by the HIPUtah Board. The HIPUtah Board is appointed by the Governor with the advice and consent of the Utah State Senate. The HIPUtah Board selects the HIPUtah Executive Director who has general oversight responsibilities for both the HIPUtah and the Federal-HIPUtah programs. The Plan Administrator is selected by the HIPUtah Board in accordance with the Utah Procurement Code. SelectHealth, a non-profit health insurance company, is the Plan Administrator for both the HIPUtah and the Federal-HIPUtah programs.

These financial statements will be included in the State of Utah's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2014, as an enterprise fund. Federal-HIPUtah is an enterprise fund of the State of Utah because it engages in business-type activities and serves only customers outside of the state government organization.

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Notes to the Financial Statements For the Year Ended December 31, 2013

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting and reporting policies of Federal-HIPUtah conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and use the economic resources measurement focus and the full accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred. All assets and liabilities associated with Federal-HIPUtah are included on the Statement of Net Position.

Cash

For purposes of reporting cash flows, cash includes 1) deposits in the State of Utah's general operating cash pool, 2) cash received for premiums by SelectHealth by December 31, 2013, but not yet deposited in Federal-HIPUtah's bank account, 3) cash from benefit claim payments reversed or refunded back to SelectHealth as of December 31, 2013, but not yet refunded back to Federal-HIPUtah, and 4) cash paid for pharmacy claims by SelectHealth that has not been reimbursed by Federal-HIPUtah as of December 31, 2013. See Note 3 for additional information.

Accounts Receivable

The clients of Federal-HIPUtah remit premium payments directly to the Plan Administrator, SelectHealth. These premiums are transferred to the Federal-HIPUtah fund at the State of Utah Insurance Department at least every three days. The premiums receivable balance on the Statement of Net Position includes premiums earned as of December 31, 2013, but not received by SelectHealth by this date. There is no allowance for doubtful accounts.

The federal contract receivable balance on the Statement of Net Position is for revenue earned according to the contract with HHS for allowable administrative and estimated benefit claims costs (see Benefit Claims Liability on next page) incurred as of December 31, 2013, but not paid by Federal-HIPUtah until after this date. No federal contract funding was drawn for these expenses because they were not paid for by Federal-HIPUtah as of December 31, 2013. Federal contract funding will be drawn to cover the cash required when these expenses are paid.

Prepaid Expense

The prepaid expense balance on the Statement of Net Position includes administrative expenses not incurred by Federal-HIPUtah as of December 31, 2013, but paid prior to that date.

Accounts Payable

The accounts payable balance on the Statement of Net Position includes expenses incurred

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Notes to the Financial Statements For the Year Ended December 31, 2013

by Federal-HIPUtah as of December 31, 2013, but not paid until after that date. See Note 4 for additional information.

Unearned Premiums

The unearned premiums balance on the Statement of Net Position includes premiums received by SelectHealth that have not been credited to a specific enrollee account as of December 31, 2013.

Benefit Claims Liability

The liability for benefit claims includes an actuarial estimate of the ultimate cost of benefit claims that have been incurred but not reported. Because actual benefit claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing benefit claim liabilities does not necessarily result in an exact amount. Because of this, the benefit claims liability is recomputed periodically by an actuary to produce current estimates that reflect recent settlements, benefit claims frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future benefit claims costs, because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to the benefit claims liability for changes in estimates is charged or credited to benefit claims expense in the period in which it is made. See Note 5 for additional information.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with Federal-HIPUtah's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. Deposits

Federal-HIPUtah follows the requirements of the State of Utah Money Management Act (*Utah Code*, Section 51-7) in handling its depository transactions. Custodial credit risk is the risk that in the event of a bank failure, Federal-HIPUtah's deposits may not be recovered. Federal-HIPUtah's policy for managing its exposure to this risk is to comply with the Utah Money Management Act. This Act requires the deposit of Federal-HIPUtah funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the State of Utah Money Management Council. The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted

Federal-HIPUtah

Pre-Existing Condition Insurance Plan

Notes to the Financial Statements For the Year Ended December 31, 2013

under the authority of the Utah Money Management Act that relate to the deposit and investment of public funds. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The cash deposit balance for Federal-HIPUtah was \$80,520 at December 31, 2013. This consists of cash from benefit claim payment reversals and refunds received by SelectHealth, but not yet refunded back to Federal-HIPUtah at December 31, 2013. This entire cash amount was uninsured and uncollateralized because it was held in SelectHealth's bank account in their name and thus not insured for Federal-HIPUtah.

4. Accounts Payable

Accounts payable as of December 31, 2013, consisted of the following:

Professional and Technical Services \$ 5,958

5. Benefit Claim Liability

Changes in Federal-HIPUtah's benefit claims liability balances were as follows:

For the Year ended	Beginning Balance	Current Year Benefit Claims and Changes in Estimates	Benefit Claim Payments	Ending Balance
December 31, 2012	\$ 2,847,573	\$ 38,188,107	\$ 34,901,050	\$ 6,134,630
December 31, 2013	\$ 6,134,630	\$ 16,089,804	\$ 21,866,869	\$ 357,565



OFFICE OF THE
UTAH STATE AUDITOR

**INDEPENDENT STATE AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors, Audit Committee,
and
Tomi Ossana, Executive Director
Utah Comprehensive Health Insurance Pool

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Federal-HIPUtah, a Pre-Existing Condition Insurance Plan, which is an enterprise fund of the State of Utah, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated May 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Federal-HIPUtah's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Federal-HIPUtah's internal control. Accordingly, we do not express an opinion on the effectiveness of Federal-HIPUtah's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Federal-HIPUtah's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor
May 1, 2014